



Consultation on the Reform of the water sector in Ireland

**Submission from the
Western Development Commission
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WDC Submission to the Consultation on the Reform of the Water Sector in Ireland

1. Introduction and context

The Western Development Commission (WDC) welcomes this opportunity to make a submission to the consultation on the reform of the water sector in Ireland.

The WDC is a statutory body established by government to promote, foster and encourage economic and social development in the Western Region¹. It operates under the aegis of DECLG.²

The WDC works in co-operation with national, regional and local bodies involved in western development to ensure that the Western Region maximises its full development potential. It does this by:

- analysing economic and social trends and making policy recommendations;
- promoting the Western Region through the LookWest.ie campaign;
- supporting the rural economy through facilitating strategic initiatives (e.g. creative enterprise, rural tourism, renewable energy);
- and providing risk capital to businesses through the WDC Investment Fund.³

One of the functions of the WDC is regional policy development. The WDC seeks to ensure that government policy reflects the needs of the region in such areas as infrastructure, natural resources, industrial and rural development. It also tracks the implementation of policies and recommends adjustments as appropriate.

The Western Region is a predominantly rural region; almost two thirds of the population live outside settlements of 1,500 people (Census of Population, 2006). Because of this, the WDC is particularly cognisant of the impact of any changes in government policy on rural areas. The Region has 4 gateways (Letterkenny, Sligo, Galway and Shannon (part of the Limerick Shannon gateway)) and 3 hubs (Ballina/Castlebar, Tuam, and Ennis) designated under the National Spatial Strategy. There are also other towns which are involved in driving local development, and which are important local economic centres in areas which are distant from designated gateways and hubs.

The WDC regards the provision of quality water supplies and wastewater treatment as essential elements of the infrastructure required to underpin the economic development of the region. Water is a key asset of the Western Region and a natural resource which brings significant economic potential and can contribute to the development of the region and to the social and economic benefit of the whole country. The maintenance of high quality water bodies is key to this, as is the development of the water supply infrastructure and the wastewater treatment network.

As noted in the Western Development Commission (WDC) Policy Briefing, *Why care about regions? A new approach to regional policy*, quality infrastructure is one of the necessary

¹ Counties Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare.

² Department of Environment, Community, and Local Government.

³ See www.wdc.ie

conditions for regional development. Lagging regions need to have a similar quality of infrastructure as is available in more successful regions, both to attract new industries and to allow those already established to be competitive both nationally and globally.

It is important for the region that areas with development potential are not restricted by insufficient water supply or waste water infrastructure and that investment also takes place which allows these areas to meet their potential.

It is also important that people living in the region, in either urban or rural areas have access to high quality, reliable and affordable water supplies and wastewater treatment appropriate to their location.

This submission is guided by the remit of the WDC, and so addresses issues of economic and social development, equity between regions and particular issues for remoter regions, rural areas and for smaller local authorities. It also emphasises the importance of water as an asset which is important for regional development. In preparing this submission the WDC consulted with the Local Authorities in the counties covered by its remit. The WDC is grateful for their input, but the content and emphasis of the submission are the responsibility of the WDC.

The submission addresses issues under the following headings:

- The importance of water for regional development
- Criteria for decision making in relation to investment projects
- Local Authority impacts of the proposed changes and the transfer of assets and liabilities and waste water schemes
- Rural and group water schemes
- The use of the river basin district as a management area
- Social, economic and commercial remit of *Irish Water*
- The proposed remit and focus of the economic regulator
- Conclusion

2. The importance of water for regional development

The WDC believes that an efficient, quality, reliable water service and infrastructure is crucial for regional development. Given the importance of water infrastructure in underpinning development the WDC is concerned that regions such as the west, with low population densities and spatially dispersed industrial development, but high quality water bodies and abundant rainfall, are given due consideration in the development of the water sector.

The increasing importance of water as an asset in the future is highlighted in the consultation document.

The WDC believes that

regions need to be able to mobilise their assets to take full advantage of their growth potential. This requires integrated strategies for regional development policy that cut across sectors and that are based on inclusive governance arrangements⁴

Existing industry needs robust, reliable water supply and waste water treatment, and the infrastructure capable of maintaining quality of supply and meeting any increase in demand for water. The Western Region needs to be able to attract new industries and businesses and allow existing business to expand. Abundant water is a key asset which in the future should allow the Region to develop further.

There are opportunities for the Western Region to become a centre which can, in future, make full use of the potential of water as an asset. Therefore, appropriate investments must be made to allow the region to compete in attracting industry and employment, and the criteria for making such investment decisions must take account of the needs of less developed regions.

Planning for water infrastructure and supply should recognise these potential benefits which could be significant for the national economy. The remit of *Irish Water* needs to include this, and the criteria by which the Regulator makes decisions must be able to take this into account. In developing the water sector we should aim to generate the widest economic benefits possible and this goal should be an intrinsic part of planning for the management of our water assets.

3. Criteria for decision making in relation to investment projects

There is a requirement for significant investment in water services infrastructure in the coming years. With the implementation of the proposed changes in the delivery of the service there are important implications for investment planning and decision making and the determination of investment priorities. The criteria for making investment decisions must be very clear and it is important that there is a recognition of the need for both large and small investments to be made.

While at the national scale, big infrastructural investments have the potential to benefit many people, small investments can have a very significant impact at a local level, affecting both existing users and the potential for development of a region. A balance will need to be struck between types and scales of investment using a very transparent decision making mechanism which is open to the scrutiny of the public and of public representatives. While in many cases there will be clear need for projects, both large and small, it is the where more marginal decisions are taking place that the issues of equity for different types of users and between different regions, and areas at different stages of development and thus the formal criteria will be particularly important.

With planning for, and decisions on, investment to be made at a national level, or at River Basin District (RBD) level, local economic development issues may receive less focus than has been the case under the remit of the Local Authorities. There could be a temptation to direct inward investment to areas with well developed water supply services, to the detriment of those areas which have weaker services. This in turn would then affect demand for services in those areas of less development and weaken their case for further investment, while growing regions and localities would continue to demand further investment.

⁴ WDC, 2010, Why care about regions? A new approach to regional policy

Overall the provision of services at a national level may have advantages in terms of efficiencies at a national level, but it may also have broad economic development implications and impact on balanced regional development.

This needs to be considered very carefully in the implementation phase and in relation to the legal remit of Irish water. It is discussed in more detail below.

4. Local Authority impacts of the proposed changes and the transfer of assets and liabilities

Clearly the proposed changes in the water sector will have very significant impacts on the Local Authorities as current managers of local water services. Some of these issues are noted briefly here, in particular in relation to those issues which affect smaller Local Authorities, without large centres of population or a significant revenue base are of particular concern.

Local Authorities have an essential role in strategic planning and working for job creation locally, and they are very conscious of the need to attract inward investment and to develop business locally. The provision of water services and ensuring that water infrastructure is available or can be made available to meet the needs of local business and inward investment is an important part of the integrated nature of local economic development. As discussed above, it is important that consideration is given to this role in the remit of *Irish Water*.

In addition to a responsibility for planning and local economic development, the Local Authorities provide and maintain local infrastructure and services (including for example the road network and fire services). This integrated provision of local services including water, brings opportunities for co-ordination among services, for efficiencies in their delivery and for ensuring that there is swift action, for example in the case of severe cold weather or other emergencies. In addition there is local co-ordination of road works and reinstatement. There will need to be a more formal approach to such types of co-operation and response in future to ensure that water services remain an integrated part of local services.

For many rural counties in particular water services are very local in nature with water supplied or treated in small schemes. There is a potential loss of responsiveness to water services issues at small scheme and group scheme level as the services is planned and managed from a distance. The centralization of water services at national level, and the move away from the local model, brings the provision further from the public and could make it less responsive to local needs, unless structures are put in place to maintain local elements of the service.

In addition it will have to be recognized that while the delivery of water services at a national level may bring efficiencies in the water sector, it will impact on the cost base and delivery of other services at the Local Authority level. Water services contribute part of the budget for shared services within the Local Authority, including IT HR, and legal services. These services are essential for Local Authorities, and the transfer of responsibility for water services to *Irish Water* will affect their funding and thus could affect the provision of other local services. This is most likely to affect the smaller Local Authorities.

The consultation document does not provide any details on the mechanisms of recruitment for Irish Water or on the transfer of staff to the new organization, or on the location of such staff and the management of staffing remote from local and regional offices. It is important that there is clarity on the mechanism for any staff currently working in water services. It is unlikely that *Irish Water* will need the same level of staffing as the local authorities and it is

not clear who will have responsibility for those staff who do not transfer to *Irish Water*. A surplus of staff would be difficult for smaller local authorities to accommodate.

The detail of the transfer of assets and liabilities from the Local Authorities to Irish Water is not given in the consultation but it likely to be complex. These are not a focus of this submission, but there will be issues around the transfer of loan liabilities of the Local Authority as well as the transfer of ownership of the physical assets, and the status of operating contracts, both existing contracts and ones that will be drawn up in the short term. There may also be complexities in relation to transfer of combined sewers (e.g. where surface waters and foul water is mixed) and the responsibility for their upgrade and maintenance.

In addition to the physical assets of water and wastewater treatment some local authorities own lands around water sources which were purchased to ensure catchment protection. It is not clear whether such assets would be transferred and if there would be compensation to the Local authority for them.

5. Rural and group water schemes

There is significant knowledge and experience in Local Authorities in relation to group schemes and smaller public schemes and of course there is expertise on local water issues within the group schemes. The consultation document is not explicit on the proposed relationship between *Irish Water* and the private group schemes.

The management of group schemes and their relationships with local authorities takes a variety of forms, the detail of the thousands of group schemes are complex and there is an intertwining of public and group schemes with various overlaps such as sharing of water sources or being provided with water from public supplies. It is likely to be difficult to establish the legal boundaries between the Local Authority and the group schemes, and unravelling them may take considerable time at the implementation stage.

There may be issues in relation to the methods and management of charging of group schemes for water to be provided by *Irish Water*, and in particular whether this is charged at an individual user level or charged to the group. Decisions in relation to metering and the locations of meters for group schemes will be crucial, as metering at a single point could put a significant burden on the group water schemes which are voluntary and non professional in nature.

Some of the trustees of group schemes may find it difficult to deal with a large public utility like *Irish Water*. It will be important that the remit of *Irish Water* allows for fair and equitable treatment of group schemes, and that there is understanding of the issues faced by those operating group schemes, and of their voluntary nature. It is important that the users of such schemes are not at a disadvantage relative to those supplied directly by *Irish Water*.

There has been variation in approaches to rural water supplies throughout the country. It will be important that *Irish Water* has a particular section which will manage the development of rural schemes but which can also act as a repository of knowledge and expertise on this sector and on appropriate development and solutions for rural water and waste water schemes. Using this expertise *Irish Water* should develop a best practice model for rural water services which will allow for the highest quality water, and the most efficient approaches to be used in relation to small schemes, both public and private, throughout the country.

It is important that there is recognition of the importance of investment in small rural water and waste water treatment schemes in rural communities to ensure that they can remain

vibrant and active communities. It is not clear whether the remit of *Irish Water* will include development of water services infrastructure in areas that are not serviced by public or group schemes, particularly in remoter areas.

Economic and social implications for the group schemes must be considered in developing the role of *Irish Water*. Furthermore, local community support for the changes in the sector is important if the sector is to realise its full potential and to achieve government policy goals and targets. There also needs to be a clear strategy for managing the relationships at a national and regional level.

6. The use of the river basin district as a management area

In general the principle of the use of the river basin district as a management area is good but there will be many complexities in its implementation. The River Basin Districts (RBD) vary very considerably both in terms of spatial area (e.g. the Shannon RBD is very big) and also in terms of population and demand. The balance between provision of services and management of each RBD will need to be planned very carefully, with appropriate staffing, investments and skills allocated to all of them.

There needs to be mechanisms to avoid competition between the different Regions for resources and to ensure that there is a standard of high quality and good service available to all users regardless of their RBD. This is likely to be particularly important for users in the smaller or more remote RBDs.

The RBDs are designated on the basis of natural features and as such do not align with any existing statutory or cultural regions. This means that users in each district may not know which RBD they are in, or which is their local service provider. It is important that users are made aware of their regional offices.

The lack of alignment with existing boundaries also has implications for the co-ordination with other services as discussed above. Some counties are in as many as 3 different RBDs and the Local Authority will therefore have to co-ordinate with three different regional offices for *Irish Water*. This will inevitably lead to inefficiencies and overlap.

Consideration will also need to be given to the relationships between *Irish Water* and other managers of the water resource at RBD level, such as ESB and Bord na Mona on the Shannon and with agencies such as Inland Fisheries Ireland, so that the most efficient model of catchment and supply management is achieved.

Therefore, as with the other aspects of the implementation process, there is a requirement for careful planning and detailed consideration of the implications of decisions being made in relation to the establishment of *Irish Water* so that the best and most efficient service is the outcome.

7. Social, economic and commercial remit of *Irish Water*

Irish Water as a public utility will have social, economic and commercial responsibilities. The commercial responsibilities in terms of charging for water services and making investment in these services are covered in the consultation, although the details of the processes for charging and the rates required and the criteria for making investments have not been given in detail. It is important that the details in relation to the commercial issues are

thought through carefully and all of the implications for criteria used, rates and charging have been considered.

Irish Water will also have other responsibilities in relation to economic and social development. For example, as mentioned elsewhere in this submission water services and infrastructure are crucial to economic development throughout Ireland and the criteria for making investments should be broader than immediate and projected demand. Investment in water services in less developed regions provides those regions with the opportunity to benefit from water as one of their key natural assets. Water service investment is important in relation to local economic development and it is essential that local and regional development issues are given due consideration when *Irish Water* makes investment decisions. For this reason, *Irish Water* should have a clear remit to be one of the agents for economic development, including regional economic development.

Similarly *Irish Water* should have a strong social element to its remit. Water services are essential to domestic and commercial life and it is important that the remit of *Irish Water* requires it to give due consideration to the social impact of its decisions at both individual and also at local and regional level. This is likely to be particularly important in relation to the impacts of decisions on smaller rural schemes and group schemes, but is relevant to people throughout the country. The decisions of *Irish Water* should not just be based on commercial considerations.

It is essential that the appointees to the board of *Irish Water* have the range of skills, expertise and experience necessary to starting up and running such a large and essential utility.

They must be able to represent the interests of a wide range of water users and can articulate the needs and rights of these consumers. This is particularly important as the influence of those elected locally, which was an important element of the provision of water services by Local Authorities, will be replaced by *Irish Water* which, as a public utility, will not have a direct connection to public representatives. There also needs to be a good understanding of consumers' needs and their context as well as a developed mechanism of consumer representation and appeal in relation to the functions of *Irish Water*.

Careful consideration should also be given to the location of *Irish Water* offices, both in terms for efficient service provision and also the benefits that such offices can bring to their local areas.

8. The proposed remit and focus of the economic regulator

The role of the economic regulator will be to ensure fairness and transparency, avoidance of inefficient practices and ensure that there is value for money for the consumer. However, in the same way as it is crucial that the remit of *Irish Water* is sufficiently broad so as to give clear economic and social responsibilities to the public utility, it is also important that the remit of the economic regulator is broad enough to take into account of both social and wider economic development issues in its regulation of water charging and investment. The economic regulator's remit needs to include a focus on economic development and potential development, and on social equity and fairness.

While affordability of water is essential, investment is also important and it is the balance between these which will be influenced by the CER as economic regulator. It is therefore important that the remit of the regulator is broader than just ensuring prices are as low as possible, or that key major investments can be made. The balance between larger and smaller

investments, the location of investment and decisions on charging users, or charges to group schemes need to be fair, well considered and transparent. The regulator should recognise of the role of water series in local and regional economic development and the necessity of infrastructural investment in water services for bringing development to lagging regions.

It is important that investment, especially in smaller schemes and areas of lower demand, not squeezed out by a narrowly focused regulatory regime.

9. Conclusion

The proposed reform of the water sector is a major undertaking. The consultation has a particular focus on the implementation of the process and the move to *Irish Water*. There are many areas, as outlined above, which will require careful thought and planning and detailed consideration of implications (both expected and also possible and unexpected implications) in order to achieve a successful transition. It is important that staffing and skills are available to do this.

The WDC is pleased to have the opportunity of making a submission to the consultation on the reform of the water sector in Ireland. We are happy to provide further information or examples in relation to this submission, or discuss any of the issues raised should this be required.

Western Development Commission

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